

**REPORT OF THE AUDIT OF THE  
FORMER ROWAN COUNTY  
CLERK**

**For The Period December 1, 2002  
Through January 5, 2003**



**CRIT LUALLEN  
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**CRIT LUALLLEN**  
**Auditor of Public Accounts**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Kimberly B. Davis, Former Rowan County Clerk

Honorable Jean W. Bailey, Rowan County Clerk

Members of the Rowan County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the former County Clerk of Rowan County, Kentucky, for the period December 1, 2002 through January 5, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the former Rowan County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
FORMER ROWAN COUNTY  
CLERK**

**For The Period December 1, 2002  
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**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER ROWAN COUNTY CLERK**

**For The Period December 1, 2002  
January 5, 2003**

Ross & Company, PLLC has completed the former Rowan County Clerk's audit for the period December 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The County Clerk's office generated operating receipts of \$289,102 and had operating disbursements of \$275,711 for the period December 1, 2002 through January 5, 2003. After paying the former County Clerk's statutory maximum of \$5,003 and expense allowance of \$300, excess fees were \$8,088.

#### **Debt Obligations:**

Capital lease principal and interest outstanding as of January 5, 2003 was \$148,931.06.

#### **Report Comment:**

- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

#### **Deposits:**

On January 2, 2003 and January 5, 2003 respectively, \$43,018 and \$32,146 of the former Rowan County Clerk's deposits of public funds were uninsured and unsecured by bank securities or bonds.





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Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Rowan County, Kentucky, for the period December 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the period December 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2003, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Clyde A. Thomas, Rowan County Judge/Executive  
Honorable Kimberly B. Davis, Rowan County Clerk  
Honorable Jean W. Bailey, Rowan County Clerk  
Members of the Rowan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -  
November 7, 2003

ROWAN COUNTY  
KIMBERLY B. DAVIS, FORMER COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period December 1, 2002 Through January 5, 2003

Receipts

Fiscal Court	\$	1,842
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	35,408
Usage Tax		136,444
Tangible Personal Property Tax		91,459
Miscellaneous		214

Licenses-

Fish and Game		330
Marriage		655
Occupational		25

Deed Transfer Tax		7,348
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Delinquent Tax	2,566	274,449
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	1,015
Real Estate Mortgages		3,365
Chattel Mortgages and Financing Statements		5,048
Powers of Attorney		48
Motor Vehicle Lien Release Fees		344
All Other Recordings		2,735

Charges for Other Services-

Copywork	151	
Postage	74	12,780

Interest Earned		31
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Total Receipts	\$	289,102
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The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 KIMBERLY B. DAVIS, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period December 1, 2002 Through January 5, 2003  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 26,430

Usage Tax 132,350

Tangible Personal Property Tax 39,864

Licenses, Taxes, and Fees-

Fish and Game 319

Delinquent Tax 773

Legal Process Tax 1,453 \$ 201,189

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 6,011

Delinquent Tax 217

Deed Transfer Tax 6,980 13,208

Payments to Other Districts:

Tangible Personal Property Tax \$ 45,548

Delinquent Tax 1,315 46,863

Payments to Sheriff

25

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 9,545

Employee Benefits-

Employer's Share Social Security 1,045

Contracted Services-

Postage Meter Rental 492

Materials and Supplies-

Office Supplies 232

Other Charges-

Postage 2,000

Refunds 460 13,774

Debt Service:

Lease Purchases 652

Total Disbursements

\$ 275,711

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 KIMBERLY B. DAVIS, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period December 1, 2002 Through January 5, 2003  
 (Continued)

Net Receipts			\$	13,391
Less: Statutory Maximum				<u>5,003</u>
Excess Fees			\$	8,388
Less: Expense Allowance				<u>300</u>
Excess Fees Due County for 2002			\$	8,088
Payments to County Treasurer - February 17, 2003	\$	5,000		
November 7, 2003		<u>3,088</u>		<u>8,088</u>
Balance Due at Completion of Audit			\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.



ROWAN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of January 2, 2003 and January 5, 2003 respectively, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$43,018 and \$32,146 of public funds uninsured and unsecured. In addition, the former County Clerk did not have a written agreement with the depository institution securing the former County Clerk's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of January 2, 2003 and January 5, 2003.

	<u>Bank Balance</u> <u>January 2, 2003</u>	<u>Bank Balance</u> <u>January 5, 2003</u>
FDIC insured	\$ 100,000	\$ 100,000
Uncollateralized and uninsured	<u>43,018</u>	<u>32,146</u>
Total	<u>\$ 143,018</u>	<u>\$ 132,146</u>

Note 4. Grant

The former County Clerk received a local records grant from the Kentucky Department for Libraries and Archives in the amount of \$28,100. The unexpended grant balance as of November 30, 2002 was \$207. During December 1, 2002 to January 5, 2003, no grant funds were received and no interest was earned. No funds were expended during December 1, 2002 to January 5, 2003. The unexpended grant balance as of January 5, 2003 was \$207.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 5, 2003  
(Continued)

Note 5. Leases

The Clerk's office is committed to the following lease agreements as of January 5, 2003:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance January 5, 2003</u>
Copier	\$ 363.43	60 months	April 2007	\$ 18,534.93
Copier	288.40	60 months	June 2007	15,285.20
Hardware	2,019.49	60 months	September 2007	115,110.93

COMMENT AND RECOMMENDATION



ROWAN COUNTY  
KIMBERLY B. DAVIS, FORMER COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Period December 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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On January 2, 2003 and January 5, 2003 respectively, \$43,018 and \$32,146 of the County Clerk's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The County Clerk should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Former County Clerk's Response:*

*At the time the account was opened, we were assured upon signing the collateral security agreement that collateral securities would be pledged adequately.*

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Rowan County Clerk for the period December 1, 2002 through January 5, 2003, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Rowan County Clerk's financial statement for the period December 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rowan County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.

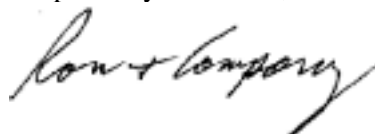
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -  
November 7, 2003

